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The international institutions that have governed global trade since the end of World War II have lost their effectiveness. Global trade governance is fractured. The need for new institutions is obvious and, yet, few proposals seem to be on offer.¹ The stubborn problem of the inequality gap between the developing nations and the nations of the first world remains a centerpiece of the international agenda. Current battles over trade policy are both intense and serious, for a great deal is at stake.² The way to break out of the endless debates between the advocates of free trade and their critics is to move beyond the terms of the current discourse. To do so requires an understanding of why the current trade order was successful in fulfilling its role in international relations for as long as it did and why it is in need of a transformation to retain currency and effectiveness. This book will answer these two questions and more.

In this book, we present fresh proposals for tackling the issues presented by global trade. We argue that neither politics nor economics alone hold the key to unlocking solutions to the problems presented by global trade. Global trade is not principally a matter of economics. Though we certainly do not prescind from matters of politics and economics, we believe that *ideas* are the fundamental tools both for understanding trade and for crafting solutions to the problems of inequality and fairness that lie at the heart of the great questions of the day.

But this is not a study in political theory alone. No account of the global trading order can be adequate if concrete reform proposals do not accompany the theoretical analysis. To that end, we start with an account of the ideas that have shaped the global trading order since the eighteenth century. We use these ideas to trace the development of trade discourse through its various iterations, reaching all the way down to the level of institutions. At each turn in our analysis, we unearth connections between the politics and institutions of trade and the deeper theoretical ideas to

which the global institutions of trade give expression. In short, our argument is complete, as it starts from the abstract plane of political theory and ends with concrete institutional and normative proposals for effecting these ideas.

The first, and most important, claim we defend is that the key to understanding the global trading order lies in uncovering the relationship between trade and the State.³ A central aspect of this understanding is that the victors of war or states that otherwise dominate the strategic playing field have the opportunity to establish a trade system that accords with their Statecraft. The trade order between states is connected to a larger order of states, an order we identify as “constitutional.” The current trade order is predicated on policies and practices that were the product of a global trading order of nation-states. When the current trade order was conceived and implemented in the middle of the twentieth century, the world was comprised of nation-states. Each nation-state contained an infrastructure and a wealth of industries that were located in a place and connected to markets regulated by the states where those industries were found. For the nation-state, the nature of its Statecraft accorded with the trade system put in place at Bretton Woods, and it was in the interests of the victors of World War II to adopt such a system. This world, which comprised the material background for the institutions conceived at Bretton Woods, is not the one we live in. Yet, the policies, practices, and institutions of the global trading order are all predicated on this world. Given that the rules and institutions of trade are the product of a world that no longer exists, new norms and institutions are urgently needed. As we will show, not only does trade hang in the balance but global security as well.

In this book, we explain how the global trading order developed from the eighteenth- and nineteenth-century trade policies of mercantilism, through the twentieth-century era of comparative advantage to the present and how the structure of the trade order between states is a function of the *type* of states that comprise the trade order. We believe that the trade order of states follows the constitutional order of states, and that the states that dominate the global strategic order, whether through victory in war or otherwise, will be the powers that structure the global trading order. As the internal constitutional order of the global society of states changes, so too does the global trading order. It is the connection between the State and the trade order that is the key to understanding the global trading order.⁴ As we will show, once we understand how trade reflects the inner logic of the State, we will understand both why the trade order developed as it did and why the rules and institutions of the current global trade order are faltering and in need of replacement.

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We begin our story with Francis Fukuyama's 1989 claim for "the end of history." Although criticized and often dismissed, we think Fukuyama was on to something in his claim for "the end of history." When the Berlin Wall fell in 1989, communism was vanquished. This was a "transitional end of history" moment, for after the defeat of fascism in World War II, communism was the last challenge to the supremacy of democracy as the preferred mode of State governance. What Fukuyama got right was that the century-long struggle between democracy, fascism, and communism was over. What he failed to see was that history had simply taken a turn down a new road. It is that road we intend to traverse.⁵

Fukuyama is not alone in recognizing the significance of 1989. The British diplomat Robert Cooper argues that 1989 set the stage for the emergence of a new form of the State, the "post-modern state."⁶ In *The Shield of Achilles*, Philip Bobbitt not only disputes that 1989 is the end of history, he further argues that it ushers in a new form of the State, the "market-state," which will succeed the nation-state. These two theorists of the State agree on a number of defining characteristics of the new form of State that, in their view, confirm the continuing evolution of the State.⁷ Further, their theories point to a nexus and an interplay between a particular form of the State (currently the nation-state) and its strategic foreign policy and military objectives. We think Bobbitt and Cooper are right about the State. Although each has made an enormous contribution to our basic understanding of the role and importance of strategy in the current era, they do not address the role of the global trading order. That is the story we tell in this book.

The State has two faces, an inner and an outer. The outer face of the State has two dimensions: strategy and trade. The inner face of the State also has two dimensions: law and welfare. "Statecraft" names the outer and the inner faces of the State. We shall now detail how these dimensions of the State interact with one another over time.

The outer dimension of the State is comprised of two principal features: strategy and trade. At all times, states have a strategic relationship to other states. The most basic of these are peace and war. In the twentieth century, sovereignty and balance of power were the two central attributes of the strategic relationship between states. Each of these aspects of the outer face of the State is in irreversible transition.

Trade is the second dimension of the outer face of the State. Trade ideology (e.g., mercantilism or comparative advantage) follows the constitutional order of states in that each form of the State is complemented by a particular trade regime. For instance, mercantilism is complementary to the state-nation form⁸ of the State. In the twentieth century, comparative advantage was a natural trade ideology for the era of the nation-state.

Thus, when we say that the trade order “follows” the constitutional order of states, we mean that each constitutional order of states (i.e., each iteration of the State) embraces a complementary trade ideology.

The inner dimensions of the State, law and welfare, are directly linked to the outer face of the State. Law is the means by which the State maintains domestic peace and provides an orderly structure for life and commerce. Welfare represents the State’s promise of providing for the health and well-being of the nation. “Welfare” names a wide range of policies and entitlements. In addition to support in the form of unemployment insurance, health care, and pension funding, the State also protects minority rights and provides regulation for everything from the environment to interstate commerce.

The State legitimates itself by delivering on its promises of security and welfare.⁹ In matters of security, modern nation-states delivered on the promise of security with two principal devices: sovereignty and balance of power.¹⁰ The notion of balance of power was linked to the concepts of sovereignty and of the nation as the interlocutor of the State in its quest for legitimacy. In the modern system, global order between strong sovereign powers was achieved by maintaining the balance of power between nations rather than the hegemonic domination of an empire or super-power.

With respect to welfare, there is great variation between the cradle-to-grave systems of the European nations and the leaner American approach to the social safety net. But there is more to welfare¹¹ than subsistence and aid from the State. In addition to delivering social support, the State must produce and manage a legal regime that preserves and protects the infrastructure of the nation. Thus, everything from the environment to regulation of markets and intellectual property falls within the purview of law. Most importantly, through law the State provides rights for everyone, but above all civil rights protections, especially for minorities. These protections constitute an all-important component of the “welfare” of the nation.

In matters of both strategy and welfare, the State is undergoing a process of irreversible change. Let us start with strategy. The year 1989 marks the end of the great struggle of the twentieth century between fascism, communism, and democracy. With the demise of fascism at the end of World War II, it remained for democracy to defeat communism in the struggle for the preferred model of Statecraft. The year 1989 – specifically the fall of the Berlin Wall – saw communism finally falter as a contender for global dominance. Henceforth, democracy would be the governance model for the State.

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But the evolution of the State did not end with the triumph of democracy. As Cooper details, the states of the European Union have now relinquished sovereignty and embraced transparency in matters of strategy. States, Cooper argues, have now become “post-modern” in that the attributes of the State during the nation-state era are fading and being replaced with a cooperative, interlocking strategy regime.¹²

Philip Bobbitt has an even stronger argument than Cooper. Bobbitt maintains that the growth of global networked terrorism and the commodification of weapons of mass destruction pose an unprecedented strategic challenge to the State. As the State can no longer deliver on its promise to protect the homeland from external attack, the strategic ground of its legitimacy is changing.¹³ This development, Bobbitt argues, portends a move from the nation-state to what he calls the “market state.” Like Cooper, Bobbitt sees the State evolving, not ending.

Now, to trade. The system of trade that was put in place after World War II reflected the inner constitutional order of the states that were its main actors. At the time, the world was subdivided into national economies coextensive with the nation-states that formed the General Agreement on Tariffs and Trade, and its successor World Trade Organization (GATT/WTO) system. The theoretical foundations of the system respected sovereignty, and left it to internal domestic policy to control the redistribution of wealth, with the essential caveat that trade restrictions should not be used for any protectionist purpose.¹⁴ However, fiscal policy, monetary policy, and welfare policies were means of domestic control over redistributive justice that, at least in theory, trade left untouched.¹⁵

At present, the world can no longer be viewed as a subdivision of national economies coextensive with nation-states and dominated by the World War II victors. Whether driven by the WTO or by other factors, the twenty-first century has inherited a multipolar economic (as well as strategic) world. Countries like Brazil, India, China, and South Korea, just to name a few, have increasingly become world economic centers. The output of the non-OECD countries has reached 45% today, and is expected to reach 60% by 2015. The old Second World, made up of communist countries, is being replaced by a new Second World made up of economies formerly classified under the global heading of “developing countries.” Lying within and alongside the first (post-modern) and second (modern) economies are pre-modern societies that lack the education, infrastructure, and other conditions to benefit from the liberalization of trade that the WTO has effected.

The ontological centerpiece of the global trading order – an aggregation of nation-states governed by the sovereignty, welfare, and balance of power principles of the twentieth century – is eroding. To be sure, the overlapping of ownership and spread of production has for quite some time made it difficult to identify a particular product as belonging to one nation versus another. But there is more to the story than these developments.

At the same time, the State has lost control over fundamental tools of wealth transfer and protection of the domestic economy unrelated to trade. Monetary policy, for example, is increasingly escaping control by states. The sheer magnitude of markets for currencies is gradually resulting in the transformation of money from a tool of exchange, which can be manipulated domestically, to a mere commodity. Public debt is increasingly held by foreign actors, and is being regulated more by the interplay of commercial interests than by domestic choices.

To the citizens of a nation, the State's promise of the delivery of welfare constitutes the most visible aspect of the evolving dynamic of states in the global order of the society of states. Part of our thesis that the nature of the State is changing is tied to changes in the way the State delivers on its promise of welfare. As we explain, we have a capacious view of the meaning of "welfare."¹⁶ Briefly, the welfare of a nation is a function of the degree to which the State maintains legal regimes for the enhancement of commerce (for example, a legal system wedded to the Rule of Law) and the protection of the nation in matters of health (e.g., public health regulations) and entitlements.¹⁷ With respect to the latter, entitlements, the State is evolving in its delivery on the promise of benefits to the nation. Succinctly, the State is moving from a regime of (legal) entitlements to one of incentives. This change is most evident in the states of the European Union and the United States but it can be seen as well in indicative planning states such as Japan. As we explain, we believe the move to a new global economic norm of enablement of global economic opportunity will manifest itself both in the domestic sphere (that is, within states) as well as globally (between states). That is to say, both domestic and international policy will reflect an increasing embrace of this new norm.

The consequences for trade of the erosion of the nation-state, the gradual decline of the model of a world subdivided into national economies, and the transformation of the means of production are manifold. We believe that the nexus between the inner face of the State and its outer trade face is gradually pushing the trade world to embrace both an institutional framework and a norm that will supplement and to a large

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extent work hand-in-hand with comparative advantage: that norm is the enablement of global economic opportunity. This move, together with the multi-polarity and diffuseness of the new world, are bound to create new protectionist pressures on domestic governments, which the institutional tools of the WTO are not adequately equipped to handle. The flow of industry to the multi-polar world is bound to affect industries that are sensitive to the economies of the United States, Europe, and the other main GATT trading partners. Technology, software, services, and other functions may be serviced by the developing countries. At the same time, the huge comparative advantage enjoyed in the labor field by actors such as China (especially in light of China's increasing attention to infrastructure) will increase the pressure to protect domestic competitors in the United States and Europe through anti-dumping or safeguard measures.

Our claim is that Statecraft transforms itself through successive epochal iterations, and the victors of war (or states that otherwise dominate the international strategic order) have the opportunity in each era to devise a trade system that reflects their epochal Statecraft. The Bretton Woods Order¹⁸ accorded with the hallmarks of what we call “modern Statecraft”: a State grounded in the nation, legitimating itself through the delivery of welfare, resting on an industrial base that was associated with the nation, cemented in the era of the state-nation, and trading with other, similarly situated nation-states. Like the preceding pre-modern order, however, Bretton Woods set in motion the seeds of its own demise. Bretton Woods inherited and shaped a world subdivided into national economies coextensive with the nation-states that established the trade order of GATT. The GATT/WTO opened up borders to trade in goods and services, an openness that lies at the heart of comparative advantage. This resulted in interloping ownership of production units across nation-states' borders, the correlative spread of production throughout the world, and the replacement of essentially “national” products and industries with global, diffuse goods and cross-border associations of economic interests that created a global market divided along industrial or sectoral, rather than national, lines. This transformation of patterns of economic activity was compounded by the revolution in global communications and, further, it was an important causal factor in to the gradual shift of fundamental policy tools of economic regulation and wealth transfer from the domestic to the international realm.

The transformation of the international economic order of states wrought by Bretton Woods contributed to the erosion of the essential domestic attributes of Statecraft in the modern world and to the passage from the age of the welfare nation-state to the age of the “enablement of

economic opportunity.” In turn, just as the Bretton Woods system ushered in an international system that accorded with the nation-state, a new constitutional moment is needed to usher in the international commercial order of post-modern states. We do not believe that the age of comparative advantage signals the end of trade history. Rather, comparative advantage is an historically efficacious trade norm, one that made sense in the era of the nation-state but, today, is in need of supplementation or more. As the State fulfills its welfare commitment through the enablement of economic opportunity more than through the supply of entitlements, so too will the global trading order of states dedicate and legitimize itself by enabling economic opportunity across borders more than through the mere liberalization of international trade in goods and services.

We believe the modern liberal democracies that won World War II must establish a new global trading order that “embeds” the post-modern states into the evolving trade order. John Ruggie famously observed that the Bretton Woods Order embedded the modern liberal democratic ethos by facilitating trade and enlarging the global economic pie, all the while leaving it to the nation-state to redistribute resources through its sovereign welfare system. Consistent with this structure, the institutions of trade of the twentieth century were dedicated to structuring rounds of negotiation for lowering barriers to trade, adjudicating tensions between free trade principles and countervailing domestic regulation, and implementing a minimal level of harmonization in fields (such as intellectual property) affecting the free movement of goods and services. Today’s international marketplace is diffuse, globalized, and interloped. We believe a new trade organization needs to be embedded in this new marketplace, one that should be comprised of a shifting representation of states and their governments, dictated by the industries at issue (we will call this new organization the “Trade Council”), delegating responsible persons based on expertise in a given subject matter area to work jointly with industry representatives and other international organizations.

In each instance, the Trade Council will establish programs designed to engender the conditions necessary for the enablement of global economic opportunity. Consistent with diffuseness and post-modern Statecraft, the Trade Council will coordinate with a wide variety of international institutions. In addition, the Council could determine which topical areas (beyond the traditional areas that are dealt with by the WTO) are good candidates for trade linkage or other action. The norm of enablement of global economic opportunity carries in its penumbra other norms, such as anti-corruption rules, that could be more effectively enforced by cooperation between the Trade Council and, say, the

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International Criminal Court or *ad hoc* tribunals. Likewise, together with central banks and other financial institutions, the Trade Council could coordinate financial and other monetary issues, taking into account industry-specific concerns that engender an international accounting system that reflects rather than resists the erosion of the nation-state.

Unlike Bretton Woods, the constitutional moment of the twenty-first century will not usher in a comprehensive regulatory framework dedicated to advancing a singular norm. Rather, it will mark a bifurcation of the international trade order into two distinct directions: the completion of the comparative advantage enterprise within the umbrella of the WTO and its negotiating rounds, and the enablement of global economic opportunity through establishment and development of new institutions. A constitutional moment (in the form of a conference akin to the Bretton Woods gathering) should formalize and mark the passage to the redirection of trade.¹⁹ At that conference, the Trade Council would be established, and a broad document endorsing the new trade norm adopted. However, rather than a comprehensive regulatory framework such as the GATT, the conference would simply establish an umbrella framework from which future regulation and projects (including rolling, *ad hoc* modest Marshall Plans of sorts to deal with pre-modern areas) will issue.

We have said that security and trade comprise the outer face of the State. But how are they related to one another? In our final chapter, we explain why – *from the point of view of strategy* – it makes sense for the nations of the first world to embrace the nascent norm of global economic opportunity and support the activities we see as important for the Trade Council. Put simply, our view is that a trade system based on the enablement of global economic opportunity will contribute to engendering and extending economic growth in the developing nations, cement a globalized society of post-modern states incorporating the emerging trading powerhouses of the twenty-first century, and thereby directly further the security interests of the developed nations. We acknowledge the debate over the facts regarding the connection between terrorism and poverty, and the question whether trade has any relevance to containing religious fundamentalist forms of Statecraft. But we think that focus is too narrow, and we explain how a wider look at the link between terrorism and global growth reveals how the enablement of global economic opportunity is in the interest of global security.

As we said at the outset of this Introduction, our goal in this book is to present a complete theory of the global trading order. While we are as enamored of theory as any academics, we believe that theory does its best work when it yields concrete proposals for change. There seems to be little doubt that the institutions of global trade are in serious trouble, or

worse.²⁰ Despite this emerging consensus, we believe it important to explain precisely why the Bretton Woods institutions – which worked so well for over a half century – have now become so ineffective. We believe that if we understand why these institutions are now obsolete we can better see what must be done to meet the challenges posed by global trade. In this book, we tell this story in all its detail and we explain how that story leads to the institutional proposals we advance.